

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE NAMAKWA DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Namakwa District Municipality set out on pages ... to, which comprise the statement of financial position as at 30 June 2012, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practise (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Namakwa District Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Public Audit Act (PAA) requirements

7. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance

with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
9. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPI)*.

The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

10. The material findings are as follows:

Usefulness of information

Consistency

11. The Municipal Systems Act, 2000 (Act No. 32 of 2000), section 41(c) requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents.
 - None of the reported objectives were consistent with the objectives as per the approved IDP. This is due to the lack of monitoring controls and officials with relevant skills in employ of the organisation, to align the IDP and the annual performance report.
 - None of the reported indicators were consistent with the indicators as per the approved IDP. This is due to the lack of monitoring controls and officials with relevant skills in employ of the organisation, to align the IDP and the annual performance report.
 - A total of 85% of the reported targets are not consistent with the targets as per the approved IDP. This is due to the lack of monitoring controls and officials with relevant skills in employ of the organisation, to align the IDP and the annual performance report.

Measurability

12. The *Framework for managing programme performance information*, chapter 3.3 states: "Performance targets express a specific level of performance that the institution, programme or individual is aiming to achieve within a given time period." Further it states that "A useful set of criteria for selecting performance targets is the "SMART" criteria (Specific, Measurable, Achievable, Reliable and Time-bound).
 - A total of 82% of the targets relevant to programmes were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *Framework for managing programme performance information*, but did not receive the necessary training to enable application of the principles.

- The required performance could not be measured for a total of 82% of the targets relevant to programmes. This was due to the fact that management was aware of the requirements of the *Framework for managing programme performance information*, but did not receive the necessary training to enable application of the principles.
 - A total of 95% of the targets relevant to programmes were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *Framework for managing programme performance information*, but did not receive the necessary training to enable application of the principles.
13. The *Framework for managing programme performance information* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use.
- None of the indicators relevant to programmes were well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *Framework for managing programme performance information*, but did not receive the necessary training to enable application of the principles.

Compliance with laws and regulations

14. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Budgets

15. The municipality incurred expenditure that was in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual report

16. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of other receivables from non-exchange transactions, debt impairment and unauthorised expenditure, identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Audit committee

17. The audit committee did not advise the accounting officer on matters relating to internal financial control and internal audits; risk management; accounting policies; effective governance; performance management; and performance evaluation, as required by section 166(2)(a) of the MFMA.
18. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
19. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.

Internal audit

20. The municipality did not establish an internal audit unit as required by section 165(1) of the MFMA.

Human resource management and compensation

21. The senior managers directly accountable to the municipal manager did not have performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.

Expenditure management

22. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

23. I considered internal control relevant to our audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report:

Leadership

24. The accounting officer did not consistently review monthly management reports, financial statements and the annual performance report prior to its submission for audit.

Financial and performance management

25. Management did not perform adequate monthly reconciliations to ensure that the information included in the financial statements is complete and accurate.
26. Management did not adequately review and monitor compliance with applicable laws and regulations.

Governance

27. Management did not establish an internal audit unit.
28. Management did not conduct reasonable risk management activities to address the municipality's risks.
29. The council did not establish an audit committee in good time.



Kimberley

27 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence